

Message Text

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PAGE 01 MANILA 06098 01 OF 02 180410Z
ACTION TRSE-00

INFO OCT-01 EA-10 ISO-00 SP-02 ICA-11 AID-05 EB-08
NSC-05 SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00
FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03 LAB-04
SIL-01 L-03 H-01 IO-13 PA-01 /107 W
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P 180341Z APR 78
FM AMEMBASSY MANILA
TO SECSTATE WASHDC PRIORITY 4429

LIMITED OFFICIAL USE SECTION 01 OF 02 MANILA 06098

USADB

FOR NAC AGENCIES

PASS TREASURYDEP FOR BRADFORD

EO 11652: N/A
TAGS: EAID, EFIN, ADB
SUBJECT: INVESTMENT GUIDELINES OF ADB

SUMMARY: ADB MANAGEMENT HAS ISSUED A PAPER FOR CONSIDER-
ATION OF BOARD OF DIRECTORS WHICH (A) REVIEWS EXISTING
INVESTMENT GUIDELINES AND NEED FOR CERTAIN ADDITIONS AND
AMENDMENTS THERETO, AND (B) SEEKS BOARD APPROVAL OF A
RESOLUTION CONSOLIDATING EXISTING GUIDELINES WITH PROPOSED
ADDITIONS AND AMENDMENTS. NAC GUIDANCE IS REQUESTED.
END SUMMARY.

1. ADB INVESTMENT GUIDELINES WERE LAST REVIEWED IN 1974.
HOWEVER, IN APRIL 1975 BOARD AUTHORIZED INCREASE IN
CEILING ON ADB'S TOTAL DEPOSITS WITH AN INDIVIDUAL BANK IN
ANY SINGLE COUNTRY FROM 15 MILLION DOLLARS TO 30 MILLION
DOLLAR EQUIVALENT. BUTBN IT AGREED THAT IN NO CIRCUM-
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PAGE 02 MANILA 06098 01 OF 02 180410Z

STANCES SHOULD ADB'S TOTAL DEPOSITS WITH AN INDIVIDUAL
BANK AND ITS AFFILIATES OR SUBSIDIARIES EXCEED ONE PERCENT
OF SUCH BANK'S TOTAL DEPOSITS. PRESENT PROPOSAL TO
INCORPORATE ALL GUIDELINES IN SINGLE RESOLUTION IN
SIMPLIFIED FORM IS INTENDED TO FACILITATE FUTURE REFERENCE
BY ALL CONCERNED.

2. GOVERNMENT-ISSUED OR GOVERNMENT-GUARANTEED SECURITIES: PRESENTLY, MATURITY ON INVESTMENTS BY PURCHASE OF GOVERNMENT OR GOVERNMENT-GUARANTEED BONDS, NOTES, ETC., PAYABLE IN SUCH CURRENCY, IS LIMITED TO NOT MORE THAN FIVE YEARS AFTER DATE OF PURCHASE. IT IS NOW PROPOSED THAT EXISTING PROCEDURE, WHICH REQUIRES BOARD APPROVAL ON CASE-BY-CASE BASIS OF SUCH INVESTMENTS MATURING AFTER FIVE YEARS FROM DATE OF PURCHASE, BE EMBODIED IN PROPOSED RESOLUTION. (TO DATE THERE HAS BEEN NO OCCASION TO SEEK SUCH APPROVAL. HOWEVER, IN ORDER NOT TO MISS SUITABLE PROFITABLE INVESTMENT OPPORTUNITIES, IT IS PROPOSED THAT, WHERE IMMEDIATE ACTION IS REQUIRED, ADB MAY, WITHOUT REFERENCE TO BOARD, PURCHASE SECURITIES MATURING AFTER FIVE YEARS BUT BEFORE FIVE YEARS AND THREE MONTHS FROM DATE OF PURCHASE, PROVIDED TOTAL AMOUNT OF EACH SUCH INVESTMENT DOES NOT EXCEED TWO PERCENT OF TOTAL INVESTMENTS OF ADB AS OF DATE OF SUCH INVESTMENT AND BOARD OF DIRECTORS SHALL BE PROMPTLY INFORMED.

3. GOVERNMENT AGENCY SECURITIES PLEDGING FULL FAITH AND CREDIT OF GOVERNMENT CONCERNED: ADB CONSIDERS THAT NEED TO OBTAIN AUTHORITATIVE OPINION OF GOVERNMENT CONCERNED COULD BE A RATHER SLOW AND CUMBERSOME PROCEDURE, WHICH COULD DEPRIVE ADB OF INVESTMENT OPPORTUNITIES. IT IS PROPOSED THAT THIS PROCEDURAL REQUIREMENT BE AMENDED TO ENABLE ADB TO PURCHASE GOVERNMENT AGENCY LIMITED OFFICIAL USE

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PAGE 03 MANILA 06098 01 OF 02 180410Z

SECURITIES UPON RECEIPT OF EVIDENCE, IN A FORM SATISFACTORY TO THE ADB, THAT LEGALLY THE SECURITIES IN QUESTION PLEDGE THE FULL FAITH AND CREDIT OF THE CENTRAL GOVERNMENT. SUCH EVIDENCE COULD BE EMBODIED IN AN AUTHORITATIVE OPINION FROM THE LEGAL AUTHORITIES CONCERNED, IN A CERTIFICATE ISSUED BY THE CENTRAL BANK OF THE COUNTRY CONCERNED, OR IN TERMS OF THE RELEVANT DOCUMENTS PURSUANT TO WHICH THE SECURITY IS ISSUED.

4. SECURITIES OF OTHER GOVERNMENT AGENCIES AND PUBLIC BODIES: IN THE PAST, THE POWER TO INVEST GENERALLY IN SECURITIES ISSUED BY SUCH AGENCIES AND PUBLIC BODIES HAS NOT BEEN CONSIDERED SUITABLE FOR INCLUSION IN ADB'S INVESTMENT GUIDELINES. WHILE BOARD HAS BEEN INFORMED THAT SPECIFIC CASES COULD BE SUBMITTED FOR OBTAINING NECESSARY BOARD APPROVAL IN APPROPRIATE CASES, IT IS NOW PROPOSED TO INCLUDE AN EXPRESS REFERENCE TO THIS PROCEDURE IN THE PROPOSED RESOLUTION, WITH SAME MATURITY LIMIT FOR SUCH SECURITIES AS FOR GOVERNMENT-ISSUED OR GOVERNMENT-GUARANTEED SECURITIES. HOWEVER, AS SECURITIES ISSUED BY FOLLOWING U.S. FEDERAL GOVERNMENT AGENCIES -- FEDERAL LAND BANKS, FEDERAL NATIONAL MORTGAGE ASSOCIATION,

FEDERAL HOME LOAN BANKS, BANKS FOR COOPERATIVES AND
FEDERAL INTERMEDIATE CREDIT BANKS -- HAVE EXCELLENT
REPUTATION AND ARE READILY MARKETABLE, IT IS PROPOSED THEY
BE INCLUDED IN LIST OF ELIGIBLE INVESTMENTS, SO THAT ADB
MAY BE ABLE TO INVEST IN THEM AS AND WHEN YIELD BECOMES
ATTRACTIVE.

5. BANKERS ACCEPTANCES: IT IS PROPOSED THAT BANKERS'
ACCEPTANCES BE ADDED TO LIST OF ELIGIBLE INVESTMENTS FOR
ADB FUNDS. SUCH INVESTMENTS WOULD BE CONFINED TO
ACCEPTANCES ISSUED BY THOSE BANKS WITH WHICH ADB IS OTHER-
WISE AUTHORIZED TO MAKE INVESTMENTS AND TO ACCEPTANCES
WHICH ARE ELIGIBLE FOR REDISCOUNTING OR ACCEPTABLE AS

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PAGE 01 MANILA 06098 02 OF 02 180409Z
ACTION TRSE-00

INFO OCT-01 EA-10 ISO-00 SP-02 ICA-11 AID-05 EB-08
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TO SECSTATE WASHDC PRIORITY 4430

LIMITED OFFICIAL USE SECTION 02 OF 02 MANILA 06098

USADB

FOR NAC AGENCIES

PASS TREASURY DEP FOR BRADFORD

COLLATERAL FOR LOANS TO COMMERCIAL BANKS BY THE CENTRAL
BANK OF THE COUNTRY CONCERNED.

6. CRITERIA FOR SELECTION OF DEPOSITORIES: PROPOSED
REVISED TEXT OF RESOLUTION WOULD ENABLE ADB TO INVEST,
WITH CONCURRENCE OF A MEMBER COUNTRY HAVING A NON-CON-
VERTIBLE CURRENCY, SUCH NON-CONVERTIBLE CURRENCY IN
BANKS IN THAT COUNTRY.

7. CEILING ON ADB'S INVESTMENTS WITH ITS DEPOSITORIES:
AT PRESENT, THERE IS A CEILING OF US 30 MILLION DOLLAR

EQUIVALENT ON ADB'S TOTAL DEPOSITS WITH AN INDIVIDUAL BANK IN ANY SINGLE COUNTRY. IN SPECIAL CIRCUMSTANCES, ADB'S TOTAL DEPOSITS WITH BRANCHES OF AN INDIVIDUAL BANK IN DIFFERENT COUNTRIES MAY EXCEED THIS AMOUNT. HOWEVER, IN NO CIRCUMSTANCES MAY SUCH TOTAL DEPOSITS EXCEED, AT ANY TIME, ONE PERCENT OF TOTAL DEPOSITS OF SUCH DEPOSITORY LIMITED OFFICIAL USE

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PAGE 02 MANILA 06098 02 OF 02 180409Z

BANK. WITH SUBSEQUENT INCREASE IN ADB'S TOTAL INVESTMENTS, IT IS BELIEVED DESIRABLE TO CONSIDER A FURTHER INCREASE IN CEILING TO US 40 MILLION DOLLARS IN ORDER TO GIVE ADB MUCH-NEEDED ADDITIONAL FLEXIBILITY. IF APPROVED BY BOARD, THESE LIMITS WOULD THEN INCLUDE PURCHASES OF BANKERS' ACCEPTANCES AS PROPOSED.

8. ADB MANAGEMENT RECOMMENDS THAT BOARD APPROVE PROPOSED INVESTMENT GUIDELINES. ADB DOC. R29-78 ON ABOVE SUBJECT, WHICH CONTAINS RESOLUTION THAT CONSOLIDATES EXISTING GUIDELINES AND INCLUDES PROPOSED ADDITIONS AND AMENDMENTS, WAS POUCHED APRIL 12 AND IS EXPECTED TO BE CONSIDERED BY BOARD OF DIRECTORS ABOUT END OF MAY.

9. IN USADB'S VIEW PROPOSED CHANGES APPEAR TO BE MODEST AND EXPANSION OF ADB OPERATIONS WOULD JUSTIFY THESE CHANGES, KEEPING IN MIND PRIMARY IMPORTANCE OF SECURITY AND LIQUIDITY OF ADB'S INVESTMENTS IN RELATION TO YIELD. NAC GUIDANCE IS REQUESTED. WESTCOTT

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